

Message Text

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E.O. 11652: N/A
TAGS: BENC, VE
SUBJECT: MAJOR PROJECT: PETROCHEMICALS, M.W.
KELLOGG BLAMED FOR PROBLEMS AT EL TABLAZO

(1) SUMMARY: VENEZUELAN PETROCHEMICAL INSTITUTE (IVP)
PRESIDENT GENERAL VALENTIN MONTANA, MADE PUBLIC A STATE-
MENT IN WHICH HE PLACED MAJOR BLAME FOR IVP'S DISASTROUS
EL TABLAZO PERFORMANCE ON DESIGN AND CONSTRUCTION WORK BY
M.W. KELLOGG (US). IVP FILING CLAIM FOR APPROXI-
MATELY \$4.3 MILLION AGAINST MWK. END SUMMARY.

(2) VALENTIN MONTANA MADE PUBLIC FOLLOWING DECLARATION
ABOUT IVP'S EL TABLAZO OPERATIONS ON 17 FEBRUARY:

(A) ALL SERVICE OPERATIONS AT EL TABLAZO NOW FUNCTIONING
SATISFACTORILY. ONLY PROBLEM IS WITH ELEFIN PLANT WHICH
SUPPLIES RAW MATERIALS FOR LOW DENSITY POLYETHYLENE,
PVC, AND PROPYLENE TETRAMER. (B) CONTACT FOR DESIGN
AND CONSTRUCTION OF OLEFIN PLANT SIGNED WITH MWK IN
1968 ON OPEN COST BASIS AND WITHOUT FIXED DELIVERY DATE.
PLANT STARTED UP IN MARCH 1976 AND OPERATED UNDER SUPER-
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VISION OF KELLOGG'S PERSONNEL UNTIL END OF OCTOBER 1976.
PLANT FUNCTIONED ERRATICALLY WITH MANY SHUT DOWNS AND
EXTRAORDINARY LOW OUTPUT (ONLY 7 PERCENT OF PRODUCTION WITHIN
SPECIFICATIONS). MWK CLAIMS PLANT WAS SELL-DESIGNED AND
WELL-CONSTRUCTED. FIRM STATES THAT PROBLEM OF UNSATIS-
FACTORY PRODUCTION RESULTED FROM DEFICIENT AND UNDISCIPLINED
VENEZUELAN WORK FORCE AND DEFICIENCIES IN THE SUPPLY OF

THE ESSENTIAL INPUTS (ELECTRICITY AND GAS). MONTANA STATED THAT THERE ARE EXTENSIVE FILES DOCUMENTING MWK'S CLAIMS. (C) GIVEN "THE DERISORY CONTRACTUAL GUARANTEES" AND IN VIEW OF THE URGENT NECESSITY TO RESOLVE THE DEFICIENCIES, THE BOARD OF DIRECTORS OF IVP AND THE MINISTER OF MINES AND HYDROCARBONS DID THE FOLLOWING: (I) ACQUIRED AND INSTALLED TWO ELECTRIC GENERATORS TO MAKE MORE RELIABLE THE SUPPLY OF ELECTRICITY TO THE OLEFIN PLANT.

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(II) ACQUIRED AND INSTALLED A 125,000 LBS/HR BOILER TO GUARANTEE THE LPG PLANT OF CVP THE STEAM NECESSARY FOR ITS EFFICIENT OPERATION. (III) CONTRACTED FOSTER AND ASSOCIATES (HOUSTON, TEXAS) FOR A SIX-MONTH RENEWABLE CONTRACT TO PROVIDE A CADRE OF EXPERIENCED TECHNICIANS TO OPERATE THE OLEFIN PLANT AND TO TRAIN VENEZUELAN PERSONNEL. OTHER CONTRACT ALTERNATIVES WERE CONSIDERED BY THE BOARD OF DIRECTORS OF IVP. THE FIRST, A CONTRACT WITH MWK WAS REJECTED BECAUSE MWK WOULD HAVE USED OPERATORS FROM OTHER FIRMS AS WELL AS FROM FOSTER ITSELF. THE SECOND, WITH A FRENCH FIRM CALLED CDF CHIMIE (TECHNICAL PARTNER OF IVP IN POLILAGO), WAS REJECTED TEMPORARILY BECAUSE IT REQUIRED MORE THAN SIX MONTHS BEFORE IT COULD BECOME EFFECTIVE. (IV) CONTRACTED CONTINENTAL TECHNICAL SERVICES (HOUSTON, TEXAS) TO DO A TECHNICAL AUDIT OF THE OLEFIN PLANT IN ORDER TO PROVIDE A STUDY THAT DETERMINES ALL OF THE PLANT'S PROBLEMS. CTS WILL ALSO PROVIDE A PLANT FOR CORRECTION OF THE PROBLEMS. THE CONTRACT WITH CTS WAS SIGNED BECAUSE DESPITE THE PRESENCE OF FOSTER'S TECHNICIANS, THE OLEFIN LIMITED OFFICIAL USE

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PLANT HAS CONTINUED TO OPERATE INEFFICIENTLY. FOSTER'S EXPERIENCED PERSONNEL HAVE IDENTIFIED A SERIES OF VISIBLE CAUSES (WHICH EXPLAIN THE INEFFICIENT OPERATION) AND HAVE PHOTOGRAPHED EACH ONE. THESE PHOTOS HAVE BEEN BROUGHT TO THE ATTENTION OF THE MINISTER OF MINES AND HYDROCARBONS AND DULY SUPPORTED THE DECISION TO MAKE THE TECHNICAL AUDIT. (V) CONTRACTED ARTHUR ANDERSON TO CONDUCT AN ADMINISTRATIVE AUDIT OF MWK'S PERFORMANCE IN MANAGING THE CONSTRUCTION OF THE OLEFIN PLANT AND OF STARTING IT UP. IN ACCORDANCE WITH THE CONTRACT (BETWEEN IVP AND MWK), MWK IS OBLIGATED TO MAKE AVAILABLE ITS REGISTERS AND ACCOUNTING JOURNALS TO ARTHUR ANDERSON IN ORDER FOR THE LATTER FIRM TO CARRY OUT THE ADMINISTRATIVE AUDIT. HOWEVER, DESPITE MANY COMMUNICATIONS FROM IVP, ARTHUR ANDERSON, AND THE VENEZUELAN COMPTROLLER GENERAL'S OFFICE, IT WAS NOT POSSIBLE TO REVIEW THOSE DOCUMENTS. THEREFORE, ARTHUR ANDERSON HAD TO MAKE USE OF ALTERNATIVE PROCEDURES TO BE ABLE TO COMPLETE PART OF ITS TASK. IN THE FIRST REPORT FROM ARTHUR

ANDERSON REGARDING BILLING, DATED AUGUST 30, 1976, THE
AUDIT REPORT SHOWED DISCREPANCIES AMOUNTING TO BS.
17,397,696.80 (\$4,045,976). IVP HAS ALREADY SUBMITTED
A CLAIM IN THAT AMOUNT TO MWK. THE REVIEW OF BILLING
AS OF DECEMBER 31, 1976 REVEALED ADDITIONAL DISCREPANCIES
OF BS. 1,204,068.80 (\$280,016). A CLAIM IN THAT AMOUNT
AGAINST MWK IS NOW BEING PREPARED BY IVP.

(3) BEING LOU. COMMENT: EMBOFF AND USDOC OFFICIAL
SPOKE TO FOSTER TECHNICIAN AT EL TABLAZO ON 11 FEBRUARY.
TECHNICIAN SAID THAT OLEFIN PLANT WAS ABOUT AS SOPHISTICATED
AS A MODEL A FORD. PROBLEMS WITH PLANT RESULTED
PRIMARILY FROM COST CUTTING IN ORIGINAL DESIGN (WHICH HE
CLAIMED WAS ORDERED BY BUDGET-CONSCIOUS AND PETROCHEMICAL-
PLANT-IGNORANT DIRECTORS OF IVP AND NOT BY KELLOGG) AND
UNRELIABLE SUPPLY OF BASIC INPUTS (ELECTRICITY AND GAS).
FOSTER'S EMPLOYEE STATED THAT THREE POWER FAILURES OCCURRED
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IN JANUARY 1977 WHILE THE OLEFIN PLANT WAS IN OPERATION.
EACH OF THOSE BLACKOUTS CAUSED THE PLANT TO BE SHUT
DOWN. TECHNICIAN SAID THAT FOSTER HAS RECOMMENDED
TO IVP HEADQUARTERS THAT OLEFIN PLANT BE SHUT DOWN FOR
30-TO-45 DAYS FOR "TURNAROUND."
(IN FACT, THE BOARD OF DIRECTORS OF IVP, IN RESOLUTION
2244, HAS CALLED FOR EXTRAORDINARY SHUT-DOWN OF THE
OLEFIN PLANT FOR MAINTENANCE AND INSTALLATION OF NEW
EQUIPMENT. SEPTEL FOLLOWS WITH DETAILED INFORMATION.)
(4) THIS STATEMENT BY THE IVP PRESIDENT FOLLOWS BY FOUR
DAYS SEVERE PUBLIC CRITICISM OF IVP BY PRESIDENT PEREZ.
PRESIDENT PEREZ REQUESTED AN IMMEDIATE
STATUS REPORT AND REPORTEDLY SAID THAT AS OF 12 FEBRUARY
IVP WAS TO BE UNDER THE CONTROL OF PETROVEN. IT
APPEARS THAT GENERAL MONTANA IS GOING PUBLIC IN AN
ATTEMPT TO SHIFT THE BLAME FOR IVP'S DISASTROUS PER-
FORMANCE TO MWK.
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Message Attributes

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Disposition Approved on Date:
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Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
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